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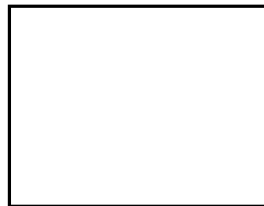
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NATIONAL INTELLIGENCE DAILY CABLE

Monday 6 March 1978

CG NIDC 78/053C

DIA review(s) completed.



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NATIONAL SECURITY INFORMATION
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Approved For Release 2006/03/17 : CIA-RDP79T00975A030600010010-0

Approved For Release 2006/03/17 : CIA-RDP79T00975A030600010010-0

National Intelligence Daily Cable for Monday, 6 March 1978

The NID Cable is for the purpose of informing senior US officials.

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ITALY: Programmatic Majority

Now that Italian Prime Minister - designate Andreotti has won permission from his Christian Democrats to include the Communist Party in a new government's parliamentary majority, he is focusing on programmatic differences among the major parties. Although the parties have been sharply at odds on several issues, Andreotti is likely to find this phase of his talks less troublesome than the protracted negotiations over the Communists' political role.

the Communists evidently were satisfied with the Christian Democratic directorate's invitation last week to join in a "programmatic-parliamentary majority." The Christian Democrats may use this formulation to continue asserting that the Communists are only part of a "program majority" as opposed to a "political" one, but for all practical purposes the Communists appear to have attained the goal they had in mind when they brought down the government early this year.

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[] In the meantime, Andreotti's meeting of party leaders over the weekend to discuss future government policy drew positive comments from most of the participants. According to a Social Democratic official, a compromise may even be near on police unionization, one of the most controversial issues facing Andreotti. The Christian Democrats are open to the idea of a unionized police force but have strongly resisted proposals from the left to organize the police under the existing labor federation, in which the Communists are the most influential party.

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[] Although the Republican Party has some reservations about Andreotti's program, the Liberals are the only party he is courting that is unlikely to support a new government. This worries the Christian Democrats even though Andreotti does not need Liberal support to have a majority.

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[] The small, conservative Liberal Party's support has been slipping in recent years, and it believes Andreotti's concessions to the Communists offer it a chance to capitalize politically by moving into the opposition. The Liberals, in fact, would be the only legitimate party remaining in the opposition, since the neo-fascists and leftwing splinter groups are considered politically untouchable.

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[] Andreotti will hold a series of meetings with labor, business, and political leaders today and tomorrow in preparation for another roundtable conference of party chiefs on Wednesday. []

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WEST GERMANY - US: Relations

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[] //West German Chancellor Schmidt, in a speech Friday in Hamburg, reaffirmed his country's close alliance with the US.

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He echoed other leading figures of his government who have tried to moderate the West German media's criticism of US influence, especially in West German economic and monetary affairs. The slide of the dollar, however, has stimulated more criticism of US leadership.//

25X1 [] //In his speech, Schmidt emphasized that the US is West Germany's most important trading partner. He implied some disagreement over economic policy but stressed that the two governments agree that the industrial nations should seek non-inflationary growth. Bonn and Washington also agree on energy policy and the North-South dialogue, he said, and they believe one of their most important tasks is to avoid protectionism.//

25X1 [] //Regarding the neutron bomb, Schmidt said that West Germany is not a nuclear power and thus cannot make a decision about the production of nuclear weapons. He said, however, that Bonn is opposed to nuclear weapons and is trying to influence other nonnuclear states not to acquire them.//

25X1 [] //The Chancellor said he expects the US, as the leading nuclear power in NATO, to provide West Germany with necessary nuclear protection and to take its interests into account. He noted that this makes possible Bonn's commitment to NATO's "purely defensive" character and the "total integration" of West German forces in the Alliance.//

25X1 [] //Schmidt reiterated that Bonn would help decide how the neutron bomb might be introduced into NATO, noting that the allies have a role to play in "developing" modernized nuclear weapons," should that become necessary.//

25X1 [] //The Chancellor declared, however, that the possibility of progress in disarmament negotiations must be considered along with NATO's requirements for security. He stressed West Germany's support for arms control and disarmament and said that all possibilities of achieving "substantial progress, particularly in the MBFR negotiations," must be exhausted. Schmidt, however, dropped a phrase from his prepared text stressing that "exhaustive" exploration of disarmament possibilities should be a prerequisite for deployment of the neutron bomb.//

25X1 [] //Schmidt said his main purpose in delivering such extensive comments on US - West German relations was to try to contradict the "many irritations" that have recently been made public. []

CHINA: Government Appointments

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[] The government named at yesterday's closing session of China's National People's Congress is composed of experienced veteran officials committed to pursuing the country's ambitious economic development program. The leadership seems to have opted for compromise regarding potentially controversial appointments; it avoided choosing officials whose candidacies may have encountered strong opposition from some quarters. On balance, the Congress yielded mixed results for senior Vice Premier Teng Hsiao-ping, Premier Hua Kuo-feng's main rival.

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[] Hua Kuo-feng, for example, retained the position of Premier. Although no one before Hua had ever held both the premiership and the position of party chairman, it was apparently less divisive to leave him in place than to name a new premier. Teng Hsiao-ping had a strong claim on the premiership by virtue of having been chosen for the post by the late Chou En-lai, but he evidently angered some important officials by his vindictive pursuit of old adversaries.

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[] It seems likely, however, that Teng and Vice Premier Li Hsien-nien will continue, as in the past, to share most of the duties of the premiership despite Hua's retention of the title.

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[] The choice of Politburo member and old marshal Hsu Hsiang-chien as the new Defense Minister seems also to be a compromise. The two leading candidates for the job were highly controversial. One was a strong ally of Teng Hsiao-ping and the other, who filled in on the job two years ago, was probably opposed by Teng.

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[] Former Defense Minister Yeh Chien-ying, who is nearly 80 and frail, was moved up to chairman of the National People's Congress, a post roughly equivalent to head of state. The job is prestigious but less taxing than the defense portfolio.

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[] Appointments to the 35 government ministries were notable for the replacement in several cases of military men by civilians, thus continuing the effort to remove military men from strictly civilian functions. Most of the new government ministers were purged in the mid-1960s and returned in recent years to public life. Two of them are newly rehabilitated.

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[] Five of the seven ministries that oversee the production of military-related equipment received new leaders. This could reflect on the standing of Politburo member and military man Chen Hsi-lien, who is believed to be in overall charge of the seven ministries. Chen, who is an opponent of Teng Hsiao-ping, was one of the unsuccessful candidates for Defense Minister and dropped from third to sixth among the vice premiers.

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[] Other probable enemies of Teng also retained their posts but slipped in the standings. Peking party boss Wu Te went from third to fifth in rank among the vice chairmen of the National People's Congress. Alternate Politburo member Saifudin, who has been under official criticism, dropped from fifth to 14th on the same list. He is now outranked by several officials who are not on the Politburo, suggesting that he has lost his Politburo position. Party vice chairman Wang Tung-hsing, who did not hold a position in the government, was again excluded.

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[] Teng's enemies were successful in denying him the premiership, and he was unsuccessful in removing them from their government positions. He saw them slightly demoted, however, and was also able to get some very close associates named to such posts as the important public security job once held by Hua Kuo-feng and to the newly established academy of social sciences.

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[] Six new ministries, most of them restored from the mid-1960s, were added to the 29 that were established at the last congress in 1975. The new ministries focus on such matters as science, economic planning, ethnic minorities, and areas such as textiles that are important export items.

DIA Dissent

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[] //DIA does not believe that there have been any significant compromises in the election of a new state leadership, as this article suggests. It is that agency's opinion that a division of responsibilities and roles between Hua Kuo-feng and Teng Hsiao-ping and other key leaders was worked out during last year's Party plenary sessions. Moreover, it seems highly unlikely that Peking would have elected to hold the Fifth National People's Congress, without first dispensing with such a critical matter as the power relationship between leading political figures.// []

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USSR: Jewish Emigration Increase

The rate of Jewish emigration from the USSR increased substantially during the eight-month period ending 28 February. During that time, emigration was almost 35 percent above the comparable period a year ago. The rate may increase even more.

In view of the unyielding, highly visible campaign against certain dissidents, Soviet authorities presumably do not expect Western government and press criticism to abate merely because emigration is made easier. Soviet officials, moreover, have not attempted to exploit the policy shift for propaganda advantage or used it as a counter to Western criticism of their actions.

The shift on emigration appears to be tied more closely to domestic than foreign policy considerations. By improving exit opportunities for the majority of Jews while cracking down on the more vocal dissident leadership, Soviet authorities are underscoring the message that the weight of the Soviet system will be thrown against those who seek to publicize their grievances against it. Such a policy, in addition, should lessen the emigration pressures that have built up since 1973.

USSR: Hard Currency Position

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[REDACTED] The record hard-currency deficit in 1975 hurt Soviet credit-worthiness. For the first time, the USSR had to borrow heavily in the Eurodollar market--more than \$4 billion--doubling its hard-currency debt to \$10 billion. This put some major Western banks close to their legal or self-imposed lending limits to the USSR, and they started to demand higher interest rates from Moscow.

[REDACTED] The USSR began to reduce its hard currency trade deficit in 1976 by boosting oil exports. It achieved a further reduction in 1977 by holding imports steady and expanding exports by 10 to 15 percent. Despite large orders for Western grain, we estimate that Soviet hard currency grain imports fell from a record high of \$2.6 billion in 1976 to about \$2 billion. This drop, however, was offset by an increase in machinery and equipment imports.

[REDACTED] Soviet exports in 1977 generally benefited more from rising world prices than from substantial increases in volume. Average annual prices were higher for oil, diamonds, timber, and platinum-group metals. Hard currency earnings from other sources--arms sales, tourism, and transportation services--have also risen rapidly over the past two years.

[REDACTED] Moscow has sharply curtailed the growth in its hard currency net borrowing over the past two years. By the end of 1977, hard currency debt to the West stood at about \$16 billion.

[REDACTED] //The USSR has sought to reduce its reliance on Western banks in an effort to counter adverse publicity on the size of its debt and to avoid paying what it considers unacceptable interest rates on further bank loans. Over the past two years, the Soviets have increased the use of government-backed credits, postponed some payments to suppliers, and stepped up gold sales.

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[] The hard currency trade deficit is likely to be reduced further in 1978, and the hard currency current account could even go into the black for the first time since 1974. Because repayments on past loans are catching up to new drawings, the growth in debt should be further slowed this year. The expected decline in machinery imports should more than offset any rise in grain imports. Because of a slightly improved economic outlook for the West, we also expect Soviet non-oil exports to grow this year at the same rate as in 1977.

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[] The volume of hard currency oil exports may decline after rising substantially in 1976 and remaining at a high level last year. A further slowing in the growth of oil production appears almost certain this year, and oil exports to the West may decline unless the Soviets are willing to pay the cost of further economies in domestic oil consumption. The other alternative, a reduction in oil exports to Eastern Europe, is probably seen by Moscow as less desirable.

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PORTUGAL-AZORES: Autonomy

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[] Portugal has instructed the regional government in the Azores to submit by 15 March a specific plan for economic decentralization and political and administrative autonomy. Most Azorean leaders believe this indicates a new interest on Lisbon's part in improving relations after months of bitter quarreling. Lisbon is also planning to replace its

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unpopular chief representative in the Azores. Both moves should help quiet Azorean discontent and separatist ambitions that could prove disruptive to negotiations on a new US base agreement.

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[] //Azorean Regional Government President Mota Amaral expects to have no difficulty in meeting the 15 March deadline. After talks with Portuguese President Eanes and other leaders, Amaral and his colleagues believe that the present Lisbon government will be more receptive than its predecessor to Azorean autonomy proposals and that the government will improve on the existing provisional autonomy statute.//

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[] In the past, Azorean ambitions have outstripped Lisbon's willingness to give; relations nearly reached the breaking point in 1976. Recent rounds of recrimination seemed to rekindle separatist fervor, which had been declining.

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[] //Amaral would like Lisbon to transfer most ministerial functions as they relate to the Azores to the regional government. He also wants to insulate the Azores from Portugal's economic problems and its austerity program. The regional government has already passed measures that would://

- Establish a separate foreign exchange budget.
- Give Azoreans authority to open domestic banking agencies.
- Allow independent interest rates in the Azores.
- Delay implementation of objectionable legislation written by the central government.

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[] The Azoreans will probably gauge Lisbon's stand on autonomy by how it deals with these bills. The regional government, composed of Social Democrats, has no partisan support in the Socialist-Center Democratic national government. A combination of person-to-person contacts and a potential for disruptive action in the islands should, however, win serious consideration for its views.

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[] //The Azoreans also want more effective participation in negotiations with the US on a new base agreement. They strongly support the US presence but dislike having to channel

some of their major dealings with the base through Lisbon. They are interested in the working conditions of Azoreans employed on the base and in obtaining control over their share of economic assistance received by Portugal as a result of a new base deal. The Azoreans could try to disrupt negotiations if their demands are not satisfied.//

25X1 [] The recent decision to replace General Galvao de Figueiredo as Minister of the Republic to the Azores is viewed in the islands as a favorable omen. Figueiredo has been unsympathetic to Azorean interests and has become a focal point for local discontent. 25X1 []

NICARAGUA: Political Change

25X1 [] //The explosion of long pent-up discontent in Nicaragua, sparked by the murder in January of newspaper editor Pedro Joaquin Chamorro, has set the country irreversibly on a path to political change. Although Marxist guerrillas are inciting much of the violence, it has become obvious that many well-to-do Nicaraguans also now believe that the anachronistic paternalism of the 45-year-long Somoza dynasty must be altered. A growing number of Nicaraguans would, if necessary, even support violent change.//

25X1 [] //It appears that the movement toward change of some kind has been encouraged by the belief that the US is providing less support to Somoza than heretofore. Somoza probably has a better than even chance of finishing his term in 1981, but there is some possibility that the situation could deteriorate more quickly.//

25X1 [] //Somoza's ability to engineer an orderly evolution toward a new competitive system is being undermined by the rebels' success in creating turmoil. Somoza has been receptive to discussions with critics of the establishment and has demonstrated restraint even toward the Marxist revolutionaries. His stabs at statesmanship, however--for example, his offer of constitutional changes--are treated by the opposition with skepticism born of many years frustration.//

25X1 [] //It is increasingly evident that younger, well-educated Nicaraguans are determined to make the most of the present situation. These young nationalists do not trust Somoza,

and they are not likely to sit still for any gradual changes to the political system fashioned by Somoza and his family. In addition to their awareness of the country's political backwardness, the younger Nicaraguans are concerned over the fact that an entrenched entrepreneurial class has reaped most of Nicaragua's economic profits.//

25X1 [] //In addition to his domestic challenges, Somoza faces the prospect of increasing international criticism of his regime. In this regard, the US stand on human rights works both to encourage Somoza's opponents and to reduce his room for maneuver.//

25X1 [] //Somoza's ability to temporize may diminish further as his government's energies are increasingly devoted to trying to curb the campaign of violence now being waged by two factions of the splintered Sandinist National Liberation Front, a Marxist organization. The National Guard will be spread thin by a prolonged period of rebel violence. This is likely to demoralize the President's frontline security forces, which in turn could weaken their loyalty to the regime.//

25X1 [] //Somoza's decision to give the Guard a free hand militarily in attempting to quash the rebels may backfire. The inevitable casualties will intensify the human rights issue and prompt greater international concern. At the same time, some besieged Nicaraguan townspeople--who may or may not be sympathetic to the rebels--will almost certainly lodge new grievances against Somoza's security forces.//

25X1 [] //Somoza's best chances for survival until 1981 lie with the members of the Nicaraguan establishment, whose vested interests largely parallel his own. The threat of young radicals shaping events may be enough to convince the President's political antagonists within the establishment that they should accept his invitation to work together for a controlled transition period. Somoza can still count--at least in the short term--on a loyal and effective security force, and his supporters in the Liberal Party have not lost faith in his judgment and his ability to control events.//

25X1 [] //An alliance involving political groups, the National Guard, and prominent businessmen may not hold up, however, if the revolutionaries seem to be gaining ground. While Somoza still appears to be in a position to control events, the situation could quickly deteriorate to the point where he would have to surrender power. []

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